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- BUDGET & PROGRAM PLANNING -

George L. Doneliman, Director

AN INTEGRATED SYSTEM OF PLANNING
AND BUDGETING FOR STATE GOVERNMENT

Thomas L. Judge, Governor

AN INTEGRATED SYSTEM OF PLANNING AND BUDGETING
FOR STATE GOVERNMENT

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Introduction

The purpose of the Executive Planning Process (Montana Governor's Office 1977a) is to provide the Governor and his key advisors with a definitive understanding of the future direction and consequent resource needs of Montana executive branch agencies. Given the built-in growth potential of state programs and the state's increasingly severe revenue constraints, it has become imperative for state government to project its activities and resource needs further into the future than historically has been the case. Both Governor and Legislature must be able to assess the long-term program and financial impacts of current government activities, see the potential future effects of current decisions and actions, and judge what services the state will need or government must provide at various points in the future. The Executive Planning Process was developed to meet Montana's intermediate and long-range planning needs.

Background of State Planning

The Commission on Executive Reorganization (1972) introduced the idea of comprehensive planning for state government. The Commission recommended the formation of a Government Operations Unit within the Office of the Governor charged with the responsibility of monitoring the organizational structure of state government, facilitating communication and adjudicating disputes between state agencies, conducting program evaluations, reviewing state management and fiscal practices, and acting as the general research and planning arm of the chief executive. However, in its one year of existence (1973-1974) the Government Operations Unit limited the scope of its

activities to specific problematic issues such as policy formulation for aging services and a program evaluation of the state's school for the mentally retarded.

In 1974 the functions of the Government Operations Unit were combined with budget preparation and assigned to the Office of the Governor (Sections 82-1315(1); 79-1012 to 79-1018, R.C.M. 1947) to be administered through the newly created Office of Budget and Program Planning. The following year, the Governor introduced a program planning and budgeting system (PPBS) as the first effort at comprehensive planning for state government operations, (Montana Governor's Office, 1977). The system consisted of four distinct but closely related steps: policy formulation as reflected in the Governor's Policy Initiatives (Montana Governor's Office, 1976) long-range planning as demonstrated in a series of six-year state agency plans, budget development as presented in the Priority Budgeting System and Executive Budget 1977-1979 (Montana Governor's Office, 1976) and variance reporting - a method of tracking agency performance which is still in progress.

The planning component of the PPBS format was titled the Executive Planning Process although it was more commonly called the 6-Year Plan, a reflection of the length of its planning horizon. The 6-Year Plan was comprehensive in scope and required agencies to specify a series of future objectives and link the objectives to a detailed schedule of dollar and manpower needs for the current and two subsequent biennia.

The 6-Year Plan produced expectations far in excess of meaningful results. Its format was flawed and the entire process became mired in a morass of paperwork which obscured the value of the

information being collected. Also, the 6-Year planning horizon was found irrelevant in view of the vicissitudes of legislative action and funding. By pioneering the concept of statewide planning, the 6-Year Plan performed a worthwhile service but, practically speaking, the 6-Year Plan needed a total overhaul to become functional and interface with the state budgeting system.

EPP: Format

The redesigned planning process, like its predecessor the 6-Year Plan, is called the Executive Planning Process (EPP). However, the only thing it has in common with the 6-Year Plan is its name. Given the deficiencies of the 6-Year Plan, EPP was designed with four criteria in mind:

1. The planning process had to be simple in design, easy to use, and require a minimum of paperwork.
2. The planning process was to provide a summary of current, ongoing agency activities as well as indicate alternative courses of action for the future.
3. The planning process had to be directly linked to the budgeting process such that decisions reached during the planning cycle were reflected in the budget.
4. The planning process should provide a vehicle to raise, discuss, and resolve major problems or issues impacting state or administration policy.

The EPP form (plan) reflects these criteria.

Insert Figure I about Here

Side one requests the organizational unit preparing the plan to specify its title, accounting code, statutory authority, provide a statement of program mission, list its current goals or objectives, and indicate the consequences of funding the program at the 80% level. The Statement of Program Mission is to describe the overall purpose of the program.¹ The section for Current Goals and Objectives is to describe the ongoing, in-place targets of program action during the current (1977-1979) biennium. Items listed in these sections are to correspond to activities funded by the existing appropriation. The section titled Consequences of Funding Program at 80% Level is to reflect the impact of a 20% reduction in program funding. Program goals or objectives which would be eliminated or restructured as a result of a funding cutback are to be identified here. Proposed reductions can be "across-the-board" or activity specific but should have the least overall impact upon the effectiveness of the program.

The second page of the plan requests information for proposed program modifications and anticipated problems or trends. Montana's

1. A program refers to an organized effort to complete a task or fulfill a need. Functionally speaking, a program is a collection of similar activities or services banded together for supervision or fiscal administration and is distinguished from other programs by a distinct code within the state accounting system. Programs do not necessarily coincide with organizational units. In most instances one or more programs are delivered by a given organizational unit, however, there are situations where programs cross organizational boundaries.

FIGURE 1

EXECUTIVE PLANNING PROCESS FORM

STATE OF MONTANA - EXECUTIVE PLANNING PROCESS			
DEPARTMENT	TITLE	CODE	STATUTORY AUTHORITY
PROGRAM			
STATEMENT OF PROGRAM MISSION (from statute)			
CURRENT GOAL(S) OR OBJECTIVE(S)			
CONSEQUENCES OF FUNDING PROGRAM AT 80% LEVEL			

CONSEQUENCES OF FUNDING PROGRAM AT 80% LEVEL (continued)

PROPOSED PROGRAM MODIFICATION(S)

ANTICIPATED PROBLEM(S)

budget format distinguishes between "current level budget" and "budget modifications". "Current level budget" refers to the amount of funding necessary to maintain the existing level of service and meet routine inflationary cost increases. A "budget modification" refers to the funding increment added to a current level budget to provide new or expanded service. The EPP section for Proposed Program Modifications is the starting place for budget modifications in the next biennium budget (e.g., 1979-1981). If a program wishes to add services, expand a level of effort within an existing program, or continue a function added by budget amendment,² the proposal is to be initiated in this section of the plan. If a program wishes to propose a change of state policy or statute without fiscal impact, it is also to be listed here. The Proposed Program Modifications section is the most important, short-term component of EPP. From this section the Governor selects the high priority items which will be included in the Executive Budget while all other proposals go to the wayside.

The section for Anticipated Problems or Trends is the long-range planning component of EPP. This part of the plan is intended to provide the Chief Executive with an understanding of the issues, trends, or problems which could appear in the next few years and which could have a major impact upon the Administration's policies, level of service provided by state agencies, or the state budget. Examples could

2. An authorized increase in the budget of a state agency by administrative action from funds which were not available for consideration by the legislature but which have become available from a source other than the state's general fund to support new or expanded service by a program.

include changing federal regulations, new building codes, court decisions in other states, or the introduction of new technology. Items identified in this portion can be either a reaction to some condition impinging upon the program or an innovative suggestion for future development. The time horizon for anticipated problems or trends is open-ended although emphasis is to be given those issues which might be reasonably expected to occur within the next few years.

EPP: Procedures

Plans are prepared at the program level. The programs used in the planning process correspond to existing budget programs, subprograms, or to an agency organizational structure. One plan is submitted for each program. The plan is limited to one typewritten page (two sides) per program. The agency director is to review the plans prepared by the programs under his jurisdiction, consolidate them into a departmental plan, and prepare a memo summarizing the priorities of the entire agency. The completed plan and director's memo are submitted to the Office of Budget and Program Planning. Figure II contains an example of a completed plan for an imaginary state program.

Insert Figure II about Here

Budget and Program Planning reviews each department's plan and

STATE OF MONTANA - EXECUTIVE PLANNING PROCESS

DEPARTMENT	TITLE	CODE	STATUTORY AUTHORITY
Health and Environmental Science		4902	82A-401
PROGRAM	Shoddy Control	4988	69-4704, 69-4705

STATEMENT OF PROGRAM MISSION (from statute):

To provide for the protection of the public health by regulating the manufacture and sale of mattresses to assure that only proper materials are used in mattress construction.

CURRENT GOAL(s) OR OBJECTIVE(s).

- To annually inspect all facilities within the state where mattresses are manufactured.
- To inspect for proper labeling at least 5% of all mattress brands and models imported into Montana for distribution and sale.
- To provide at least one hour of training to all local public health officers on the identification and characteristics of shoddy materials. (Health)
- To maintain an inventory of mattress brands and models approved for sale within the state of Montana.
- To conduct three laboratory analyses on mattress materials for each approved mattress model. (300 tests per year).

EXAMPLE

CONSEQUENCES OF FUNDING PROGRAM AT 80% LEVEL

1. Reduce laboratory tests to one analyses per approved mattress model. (100 tests per year).
2. Reduce training program to one annual session of four hours. Program cost to be paid for by local agencies.
3. Conduct labeling inspections on a biennial rather than the current annual schedule.

CONSEQUENCES OF FUNDING PROGRAM AT 80% LEVEL (continued).

PROPOSED PROGRAM MODIFICATION(s):

1. Initiate program to annually inspect motel and hotel mattresses.
2. Develop testing program for mattress flammability.
3. Provide training for local building inspectors.
4. Add fire test facility to the Shoddy Testing Institute (LBSI).
5. Amend statute to make it a felony offense to knowingly sell shoddy materials to a minor. (Consumer Protection)

EXAMPLE

ANTICIPATED PROBLEM(s):

1. Proposed federal regulations may require shoddy control in all hotels and motels.
2. Court decision in Alabama (Sleep King Mattress Co. vs. Board of Public Safety) may require more stringent labeling requirements unconstitutional. Impact upon Montana's law unknown at this time.
3. Recent research has indicated that an increasing number of young persons are manufacturing their own mattresses. Potential health hazard.

meets with agency personnel to discuss the plan and gather additional information to justify proposed program modifications or anticipated problems. Then, the Budget Office summarizes and condenses each departmental plan. The summary differentiates between budget and non-budget proposed program modifications. A copy of the summary memo is sent back to the agency for review and comment. Figure III contains an example summary memo.

Insert Figure III about here

The departmental summaries form the nucleus of material sent to the Governor from which he selects the high priority budget modifications or indicates his decision concerning legislation or a major policy issue.

EPP is not simply a process of review and summarization. It is a multistage screening process designed to systematically identify, evaluate, and select high priority budget modifications for inclusion within the Executive Budget or legislation and policy issues which merit the Chief Executive's attention. At each step in the EPP review process low priority items are screened out and eliminated from further consideration.

The screening process begins with the department director. In actual practice with proposed budget modifications, the department directors screened out 50 percent of the proposals they received

EXECUTIVE PLANNING PROCESS

SUMMARY MEMO
FOR THE

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Section 1: Proposed Budget Modifications

1. Provide increased financial support to local health departments. Currently the department passes through approximately \$100,000 of the 31(c)(3) funds received by the state. Local health departments are facing substantially increased costs as a result of their participation in state mandated services particularly in the areas of child and consumer product safety. An additional \$100,000 of 31(c)(3) funds will be allocated to the local health department with that amount supplemented by \$100,000 of general funds in the OHES budget.

2. Provide well child and prenatal services in low-population rural areas. Well handbooks are not currently provided. Early identification of health problems and the use of 70% subvention funds to disburse with the need for further state provided services later in life. Approximately 60% of Montana's population is not served by a well child/pre-natal clinic. This modification proposes the establishment of three clinics in Glasgow, Miles City, and Lewistown at an approximate cost of \$700,000 per clinic. Construction of the clinics will be completed by the end of 1992. A project manager will be assigned to each clinic and a project manager in Helena. Federal funds are available to support the clinics for two years (i.e., \$600,000). Thereafter the state will be required to pay 50% of the cost of operation.

3. Expand subdivision regulatory activities with particular emphasis upon sanitary engineering. Current revisions of subdivision proposals do not contain sufficient analysis of water supply, sewage disposal, and solid waste management plans. This modification requests the addition of three FTE sanitary engineers at an approximate cost of \$100,000 per biennium. EPA funds will cover 75% of the cost of the engineers. The remaining 25% will be covered by the state general fund picking up the remainder (\$30,000).

4. Expand departmental legal services. In the last two years departmental litigation has increased 40% and a backlog of cases is developing. Request one FTE attorney at \$35,000 per biennium and \$40,000 for contracted legal services. Total cost for the biennium equals \$75,000 and would be paid by the general fund.

Section 2: Proposed Legislative Modifications (om-budget)

1. Revise statutes and rules on control of communicable diseases (RCM 41-10-2462) to strengthen OHES' quarantine authority and to require monthly reports of infectious diseases from hospitals.
2. Update state ambulance licensing law (RCM 69-84235) to relax mechanical specification requirements and grant greater flexibility to the purchase of ambulance equipment.

Section 3: Proposed Reductions to Funding

1. Management Services Program -- reduce staff traveling by 50% and out-of-state traveling by 90%. Estimated cost savings - \$12,000 general fund and \$28,000 federal funds. Federal funds could be used elsewhere in the department.
2. Communicable Disease Program -- eliminate screening program for tuberculosis in high-risk occupational groups. In the past the department has screened 6,000 individuals annually (found 15 positive cases). Cost savings equals \$26,000 of general fund.
3. Environmental Health Program -- discontinue environmental information activities. No indication of program effectiveness and duplication of effort provided by DHEC. Cost savings of \$10,000 general fund and \$10,000 federal funds. Money could be reprogrammed into other departmental activities.

from the programs. Budget and Program Planning's review, the second step in the screening process, reduced by half again the number of proposed modifications received from state agencies. Thus, the Governor received only 25% of the budget related items originally identified by the programs. From this list, he will select the proposals which are to be funded within the Executive Budget pending available revenue. Although the Governor has not registered his final decisions, it is anticipated that less than 50% of the proposed budget modifications to reach his desk will be considered for funding within the Executive Budget. Agencies will be asked to submit detailed budget documentation for proposals which receive a high or top priority ranking from the Governor. Figure IV presents the format through which the Governor will register decisions regarding proposed budget modifications for the next biennium.

Insert Figure IV about here

Through EPP the Governor will receive three major reports. The first report identifies proposed budget modifications which have survived agency and budget office screening. The second report lists proposed non-budget, legislation which state agencies wish to have introduced during the next legislative session. The final report (in progress) will discuss issues or problems which require policy consideration or a decision from the Chief Executive.

DEPARTMENT: Health and Environmental Sciences				Executive Planning Project
GOVERNOR'S PRIORITY RANKING				COMMENTS
Top	High	Medium	Low	
				PROPOSED BUDGET MODIFICATION
				<p>1(a) . Proposed modification 1(a) requests continuation of a position originally funded under a prior Budget Amendment and addition of .5 FTE. The person in this position is to serve as an "interagency coordinator", as a DHES liaison with the legislature and as a public information/public relations type for the DHES. The DHES has several legislative proposals and feels a need to have someone capable of explaining them during the session. Further, the DHES is involved in programs that require cooperation and coordination with other departments of state government. If approved, the modification will entail one FTE at Grade 14, step 13, .5 FTE at Grade 14, step 2, and operating expenses, for a total of \$69,652 for the biennium. The source of funds is 75% federal funds and 25% general funds.</p> <p>1(b) . Proposed modification 1(b) is intended to continue a position for staff to conduct a patient origin study. Patient origin studies seek to determine functional patient catchment areas for health facilities, and to determine the nature of demand for health care services experienced by those facilities. Data of this sort are necessary for health planning activities. The modification, if approved, would continue at Grade 13 position at an estimated biennium cost of \$55,500; these funds are a mix of state and federal funds -- approximately \$13,900 state and \$41,600 federal.</p> <p>2. . Proposed modification 2 seeks authorization to expend additional federal funds, which are "overmatched" now, according to DHES sources. If approved, this modification will allow DHES to expend federal funds they already have matched but have not been allowed to spend. The funds will be expended on contracts to conduct studies related to certification of need for medical facilities. In addition, two FTEs are requested, to handle the increased workload in certificate of need reviews. Certificates of need are required by state and federal statute. The two positions requested are a Grade 14 - Program Manager V, and a Grade 13, Research and Development Specialist. The expense listed for both these positions are nearly identical, at \$74,262 and \$74,264 respectively, for the biennium, for a total of \$148,526. Of these funds, 75% are federal and 25% state.</p> <p>3. . Proposed modification 3 seeks authorization to spend additional federal funds. The funds will be expended within the legal unit of DHES; this unit now charges the department fees for legal services. Services purchased will be applied to certificate of need activities. Cost is estimated to be \$11,400 for the biennium - 25% general fund, 75% federal funds.</p>

EPP: Advantages and Disadvantages

The Executive Planning Process was put into effect in December 1977 as the starting point for the next biennium (1979-1981) budget cycle. The process has been a success and, primarily because of EPP, decisions regarding and preparations for the Executive Budget are about four months ahead of the time schedule followed during the last budget preparation.

EPP has six major strengths which appear to contribute to its use and success:

1. The planning format is simple, easy to use, and designed for use by program managers. By restricting plans to one page per program, a limited amount of agency staff time is required to complete the planning documents. Also, by limiting available space, EPP forces managers to concisely think through program needs. Unlike its predecessor, the 6-Year Plan, EPP minimizes the volume of paperwork generated through the planning cycle.
2. The multistage process used to review program and departmental plans enables agency personnel to gather and disseminate information to support these program requests over an extended period time. This approach provides the department head and budget office an opportunity to digest rather than simply skim over information provided by the program as well as minimizing the disruption to day-to-day program activities.
3. EPP provides ample opportunity for agency personnel to participate in the planning process. The process is designed to include line program managers, department heads, central management personnel (e.g., accounting), the budget office, and Governor. EPP is also an open process. The results from each stage of review and decision are visible to all participants and each has access to formalized routes of appeal if they disagree with the decisions reached with respect to their program.
4. EPP enables decisions regarding program modifications to be made early in the budget process. Many budget decisions are straightforward and do not require detailed policy or political analysis. By providing

4. (continued)

early decisions for routine matters EPP has freed both the budget office and agency staff to work on more significant matters. Also, by using EPP to screen out many agency requests for budget modifications, the amount of budget documentation which the agencies would normally need to supply has been reduced.

5. Through EPP, decision making operates on a realistic basis. The process of sifting out program modifications is broadly guided by expressions of departmental priority, administration policy, and legislative intent. EPP does not contain nor does it make any pretense to purely scientific decision making. Decisions within state government and preeminently decisions regarding the state budget are made for many different reasons. Decision making by Governors or state legislatures does not always proceed from a cost-benefit, scientific, or other, purportedly, rational basis. Functionally, the sole criterion for decision making in EPP is that all decisions be reasonable and justifiable in the face of appeal.
6. EPP is an integrated system. Program managers must look forward through the planning process, to identify the short and long-term budget needs of their programs.

EPP also has some shortcomings:

1. It does not include a systematic review of existing government activities. Although a variant of the basic EPP form will be used in conjunction with agency fiscal operation plans, the process as it now exists is of limited utility for program evaluation.
2. The practical utility of EPP diminishes in proportion to the amount of funds a program receives from sources other than the state general fund. This deficiency is less a function of EPP than it is a commentary upon the nature of planning and budgeting by public agencies. When revenue is assured, as is frequently the case in programs supported by earmarked or federal revenue, there simply isn't the urgency to plan or tightly budget.
3. EPP was designed as a tool for the central budget office and senior state decision makers including the Governor. It was not intended for day-to-day program administration although it could be used in that manner if modified. Agencies that already possess internal planning procedures must develop some method of interfacing with EPP.
4. EPP is specifically focused at individual programs. As such, it can be somewhat difficult to obtain a macro, multi-agency view of a particular set of programs.

EPP: Performance to Date

The Executive Planning Process has been a significant aid in streamlining the budget process. By providing early identification of proposed budget requests it has been possible for the agencies, budget office, and Governor to sort through and select the high priority or most critical proposals for funding.

The programs originally identified 825 proposed modifications. EPP screened out 75% of the requests and transmitted 215 requests totaling \$30 million to the Governor. Last biennium before the introduction of EPP it was necessary to weed out over 500 requests totaling \$150 million. The Governor's decisions will further reduce the number of fundable modifications to 5-10% of the number originally submitted. Reducing the number of proposed budget modifications through the planning process rather than during the budget cycle also is saving both the budget office and agencies a substantial amount of labor and paper. It is estimated that EPP is saving the agencies an estimated 2,400 man-hours of budget preparation time and do away with the need for submitting 3,500 budget documents, an 85% reduction.

In summary, EPP has already proven its worth as an integral component of the state budgeting system. The process of discussing and resolving major policy issues identified through EPP has just begun but similar, favorable results are expected.

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